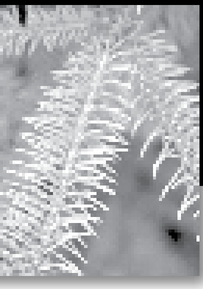
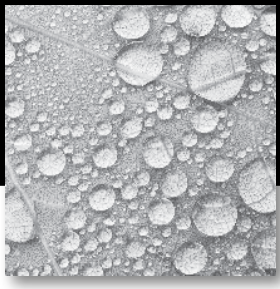
Grace Period Q&A





The IRS Revenue Notice 2005-42 was approved in May 2005. This notice permits a grace period of 2 months and 15 days immediately following the end of each plan year during which unused contributions into either your medical or dependent care flexible spending account (FSA) may be reimbursed for qualified expenses incurred during the grace period.

This means for example, since the State of California's FSA plan year ends on December 31, 2008, you may incur qualified expenses up to March 15, 2009, and use any unspent funds from your 2008 plan year account.

The grace period should not be confused with the run-out period which is the period during which you may submit claims for reimbursement out of your prior plan year's account. The State of California's run-out period ends on June 30. This means that you will have until June 30 to submit claims for reimbursement for expenses in the prior plan year.

The following are some basic questions and answers to help you understand how this Revenue Notice may affect your FSA.

Q. ***How does the Revenue Notice affect my medical FSA?***

A. The IRS Revenue Notice allows you to incur qualified medical expenses for the current plan year until March 15 of the following year, and to be reimbursed with unspent funds from your prior plan year account. For example, if on the January 1, 2009, you have $200 left in your prior plan year account, you can incur medical expenses up until March 15, 2009. These expenses will be paid until your prior plan year's account has been exhausted.

Q. ***How does the Revenue Notice affect my dependent care FSA?***

A. The IRS Revenue Notice allows you to incur qualified dependent care expenses up to March 15, and use any unspent funds from your prior plan year account. For example, if on January 1, you have money left in your prior plan year account, you can incur expenses up until March 15. These expenses will be paid from your prior plan year's account until your balance has been exhausted.

Q. ***What is a grace period?***

A. A grace period is the two months and fifteen days immediately following the end of the plan year, in which you or your qualified dependent(s) can incur qualified expenses and use any unspent funds from prior plan year account funds. The State of California's grace period is January 1 through March 15.

Q. ***What is a run-out period?***

A. A run-out period is the period of time in which a participant has to submit claims for reimbursement out of the prior plan year's account. The State of California's run-out period is January 1 through June 30.

Q. ***What happens to my claims during the grace period if I have a FSA Account for the previous and current year?***

A. Claims will be paid in the order in which they are received. If you have an account balance in your prior plan year's account, and a claim is received with a date of service during the grace period, the expense will automatically be paid from your prior plan year's account. If a claim is received at a later date, with a date of service in the prior plan year, and all funds have been paid from your prior plan year account, the claim will not be paid.

Q. ***Can I tell you which plan year I want my claims to be paid from?***

A. Claims will be paid in the order in which they are received. You may not request for a claim to be paid from a specific plan year. However, you can control the order in which you submit or file your claims. Always make sure that you file older claims first to ensure that funds are paid from the previous plan year first.

Q. ***How should I calculate my future annual contributions for my medical expense accounts?***

A. You should continue to use only twelve months of expenses for calculating expenses for our FSAs. The new Revenue Ruling is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

Q. ***What happens if I do not submit my reimbursement claims from the prior plan year by June 30?***

A. If a reimbursement request is not submitted by the June 30 deadline, funds will be forfeited.

Example**: First in First Out Paper Claim**

Your 2008 Medical or Dependent Spending Account balance is $100 and your 2009 Medical Spending Account balance is $1,000. You incur a $50.00 medical expense on January 15, 2009 and submit a paper claim on January 20, 2009. The claim will be paid out of your 2008 account leaving a balance of $50.00 in your 2008 account and a balance of $1,000 in your 2009 account.

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